

**St. Joseph County Transportation Authority
Three Rivers, Michigan**

FINANCIAL STATEMENTS

September 30, 2008

St. Joseph County Transportation Authority

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of Directors

St. Joseph County Transportation Authority
Three Rivers, Michigan

We have audited the accompanying financial statements of the St. Joseph County Transportation Authority as of and for the year ended September 30, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Joseph County Transportation Authority as of September 30, 2008, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2009, on our consideration of the St. Joseph County Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the St. Joseph County Transportation Authority's basic financial statements. The accompanying Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the St. Joseph County Transportation Authority. Such information, except for the portion marked as "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 4, 2009

St. Joseph County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

February 25, 2009

The intent of the management's discussion and analysis is to provide highlights of the Authority's financial activities for the Fiscal Year ended September 30, 2008. Readers are encouraged to read this section in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

- **Assets:** The assets of the Authority exceed its liabilities by \$695,628 (net assets). Of this amount, \$266,834 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- **Unrestricted Net Assets:** At the end of the current fiscal year, the unrestricted net assets balance for the Authority was \$266,834 or approximately 18% of total expenses. At the end of the prior fiscal year, the unrestricted net assets balance for the Authority was, \$100,562, which was approximately 10% of last year's total expenses.
- **Federal & State Funding of Capital Projects:** St. Joseph County Transportation Authority is eligible for grants through the Michigan Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending September 30, 2008, the Authority recognized \$78,577 in capital grant revenue.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs through user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the report period.

FINANCIAL ANALYSIS OF ST. JOSEPH COUNTY TRANSPORTATION AUTHORITY

The Statement of Net Assets and the Statement of Activities provide the information to determine how the Authority did financially during 2007-8. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining the Authority's financial health.

NET ASSETS

The Authority's Comparative Condensed Statements of Net Assets and Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables.

St. Joseph County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year 2006-7	Fiscal Year 2007-8
Current Assets	\$ 195,288	\$ 433,284
Capital Assets, net	<u>414,907</u>	<u>428,794</u>
Total Assets	610,195	862,078
Current Liabilities	<u>94,726</u>	<u>166,450</u>
Net Assets		
- Invested in Capital Assets	414,907	428,794
- Unrestricted	<u>100,562</u>	<u>266,834</u>
Total Net Assets	<u>\$ 515,469</u>	<u>\$ 695,628</u>

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN FUND NET ASSETS

	Fiscal Year 2006-7	Fiscal Year 2007-8
Operating Revenues	\$ 286,648	\$ 311,158
Nonoperating Revenues	<u>630,757</u>	<u>1,207,616</u>
Total Revenues	917,405	1,518,774
Depreciation Expense	91,753	137,319
Other Operating Expenses	<u>895,570</u>	<u>1,302,482</u>
Total Expenses	<u>987,323</u>	<u>1,439,801</u>
Change in Net Assets	81,064	78,973
Beginning Net Assets	<u>434,405</u>	<u>616,655</u>
Ending Net Assets	<u>\$ 515,469</u>	<u>\$ 695,628</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets shows that the operating loss before intergovernmental (nonoperating) revenues was a factor in the Change in Net Assets. In addition, the depreciation expense of \$137,319 is a non-cash expense which represents the reduction in the value of the facility and buses. Due to the nature of the Authority's capital improvement plan, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through State and Federal funding.

The Authority's operating revenues increased approximately less than 8% over the prior year, which was not considered to be a material change. Operating expenses increased approximately 45%, mainly due to increased services, fuel expense and depreciation expense.

The Authority's nonoperating revenues increased by approximately \$576,859, or about 41% over the prior year. This increase is due primarily to the fact that there were no buses purchased in this fiscal year.

St. Joseph County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

CAPITAL ASSETS

The acquisition of new buses is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This allows for the Authority to maintain its fleet at an average life of five (5-6) years. This funding source also allows the Authority to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility.

TABLE 3
CAPITAL ASSETS

	Fiscal Year <u>2006-7</u>	Fiscal Year <u>2007-8</u>
Construction in progress	\$ 9,521	\$ 9,521
Buildings and improvements	49,733	49,733
Vehicles	1,097,250	929,349
Equipment	<u>75,323</u>	<u>89,323</u>
Subtotal	1,231,827	1,077,926
Less: Accumulated depreciation	<u>(816,920)</u>	<u>(649,132)</u>
Net property and equipment	<u>\$ 414,907</u>	<u>\$ 428,794</u>

Note D to the financial statements provides additional information regarding capital assets.

DEBT ADMINISTRATION

The Authority carries no long-term debt as any improvements to the fleet or facilities have all been secured by state or federal projects. This allows the Authority to avoid any debt other than current liabilities in the normal operation of the system.

ECONOMIC FACTORS

Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. The Authority also does have a mileage of .33. These funds have remained relatively consistent; however, fluctuations in future funding levels may occur depending upon economic conditions at local, state, and federal levels.

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Executive Director of St. Joseph County Transportation Authority, 810 Webber Ave. Three Rivers, MI 49093 (269) 273-8084

BASC FINANCIAL STATEMENTS

St. Joseph County Transportation Authority

STATEMENT OF NET ASSETS

September 30, 2008

ASSETS

Current assets

Cash	\$ 309,209
Accounts receivable	10,876
Due from other governmental units	87,872
Prepays	4,135
Other assets	<u>21,192</u>

Total current assets 433,284

Noncurrent assets

Capital assets not being depreciated	9,521
Capital assets, net of accumulated depreciation	<u>419,273</u>

Total noncurrent assets 428,794

TOTAL ASSETS 862,078

LIABILITIES

Current liabilities

Accounts payable	40,088
Due to other governmental units	80,000
Accrued interest	4,682
Other accrued liabilities	<u>41,680</u>

TOTAL LIABILITIES 166,450

NET ASSETS

Invested in capital assets	428,794
Unrestricted	<u>266,834</u>

TOTAL NET ASSETS \$ 695,628

See accompanying notes to financial statements.

St. Joseph County Transportation Authority

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2008

OPERATING REVENUES	
Sales and charges for services	\$ 311,158
OPERATING EXPENSES	
Administrative	193,861
Operations	1,188,649
Maintenance	<u>57,291</u>
TOTAL OPERATING EXPENSES	<u>1,439,801</u>
OPERATING (LOSS)	(1,128,643)
NONOPERATING REVENUES	
Intergovernmental	
Federal sources	157,528
State sources	368,660
Local sources	<u>602,851</u>
TOTAL NONOPERATING REVENUES	<u>1,129,039</u>
NET INCOME BEFORE CAPITAL GRANT REVENUE	396
CAPITAL GRANT REVENUE	
Federal sources	49,742
State sources	12,435
Local sources	<u>16,400</u>
TOTAL CAPITAL GRANT REVENUE	<u>78,577</u>
CHANGE IN NET ASSETS	78,973
Restated net assets, beginning of year	<u>616,655</u>
Net assets, end of year	<u><u>\$ 695,628</u></u>

See accompanying notes to financial statements.

St. Joseph County Transportation Authority

STATEMENT OF CASH FLOWS

Year Ended September 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 340,900
Cash paid to employees	(756,583)
Cash paid to suppliers	<u>(449,734)</u>

NET CASH (USED) BY OPERATING ACTIVITIES (865,417)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State and Federal grants	494,428
Local contributions	<u>602,851</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 1,097,279

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Sale of assets	10,400
State and Federal capital assistance	62,177
Capital acquisitions	<u>(72,286)</u>

NET CASH PROVIDED BY CAPITAL AND
RELATED FINANCING ACTIVITIES 291

NET INCREASE IN CASH DURING YEAR 232,153

Cash, beginning of year 77,056

Cash, end of year \$ 309,209

RECONCILIATION OF OPERATING (LOSS) TO NET
CASH (USED) BY OPERATING ACTIVITIES:

Operating (loss)	\$ (1,128,643)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	137,319
Decrease in accounts receivable	29,742
(Increase) in prepaids	(4,135)
Decrease in other assets	311
(Decrease) in accounts payable	(14,107)
Increase in due to other governmental	80,000
Increase in other accrued liabilities	29,414
Increase in accrued interest	<u>4,682</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (865,417)

Note: In 2008, the Authority recorded an increase in capital assets and contributions, respectively, of \$16,400.

See accompanying notes to financial statements.

St. Joseph County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The St. Joseph County Transportation Authority (the Authority) was established as a legal entity pursuant to the Public Transportation Authority Act - Public act 196 of 1986, as amended. The Authority was formed to coordinate transportation for human service agencies in St. Joseph County, Michigan. The Authority has the capability and the authority to provide public transportation to the general public in the area serviced.

The accounting policies of St. Joseph County Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the St. Joseph County Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, as amended by GASB Statement No. 39, and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

2. Basis of Presentation

The accounts of St. Joseph County Transportation Authority are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. St. Joseph County Transportation Authority's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges.

St. Joseph County Transportation Authority applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. St. Joseph County Transportation Authority has elected not to follow FASB pronouncements issued after November 30, 1989 to its financial statements.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

St. Joseph County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash

Cash consists of checking accounts.

6. Receivables/Due from Other Governmental Units

Receivables/due from other governmental units consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

7. Capital Assets

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$1,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Vehicles	4-7 years
Equipment	5-12 years
Building	39 years

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the revenue and expense (R&E) manual and/or as approved by the Bureau of Passenger Transportation (BPT).

8. Due to Other Governmental Units

Due to other governmental units consists of amounts due to the County of St. Joseph.

9. Compensated Absences

St. Joseph County Transportation Authority employees are granted paid leave time in varying amounts. In the event of termination, an employee is paid for certain portions of unused paid leave time. This amount has been recorded in the Statement of Net Assets and is included in other accrued liabilities.

10. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

11. Cost Allocations

The St. Joseph County Transportation Authority allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor Agency.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statement unduly complex and difficult to read.

13. Explanation of Ineligible Expenses per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE B: CASH

In accordance with Michigan Compiled Laws, St. Joseph County Transportation Authority is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any Authority or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an Authority of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal Authority obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

St. Joseph County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE B: CASH - CONTINUED

Deposits

There is a custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2008, the carrying amount of the Authority's deposits was \$309,209 and the bank balance was \$313,328, of which \$100,000 was covered by federal depository insurance. The remaining balance of \$213,328 was uninsured and uncollateralized.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2008, St. Joseph County Transportation Authority did not have any investments that would be subject to rating.

Interest rate risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Grants receivable at September 30, 2008, by grant type and year are as follows:

Federal Capital Grant - Section 5311	\$ 3,216
State Operating Assistance - FY08	23,008
Federal Section 5311 - FY08	36,608
Federal Section 5311 - FY07	5,879
Specialized Services - FY08	9,345
JARC	<u>9,816</u>
Total	<u>\$ 87,872</u>

St. Joseph County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	Restated Balance <u>Oct. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2008</u>
Capital assets not being depreciated:				
Construction in process	\$ 9,521	\$ -	\$ -	\$ 9,521
Capital assets being depreciated:				
Vehicles	1,125,720	74,686	271,057	929,349
Equipment	75,323	14,000	-	89,323
Building	<u>49,733</u>	<u>-</u>	<u>-</u>	<u>49,733</u>
Total capital assets being depreciated	1,250,776	88,686	271,057	1,068,405
Less accumulated depreciation for:				
Vehicles	(739,187)	(125,769)	260,657	(604,299)
Equipment	(32,008)	(10,275)	-	(42,283)
Building	<u>(1,275)</u>	<u>(1,275)</u>	<u>-</u>	<u>(2,550)</u>
Total accumulated depreciation	<u>(772,470)</u>	<u>(137,319)</u>	<u>260,657</u>	<u>(649,132)</u>
Net capital assets being depreciated	<u>478,306</u>	<u>(48,633)</u>	<u>(10,400)</u>	<u>419,273</u>
Net Capital Assets	<u>\$ 487,827</u>	<u>\$(48,633)</u>	<u>\$(10,400)</u>	<u>\$ 428,794</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year, the Authority disposed of assets that were federally and state funded with an historical cost of \$271,057. The assets disposed were not fully depreciated. Depreciation expense in the amount of \$137,319 was reported for the year ended September 30, 2008.

NOTE E: PROPERTY TAX REVENUES

St. Joseph County Transportation Authority's property tax is levied in December on the State Equalized Valuation of property located in the County of St. Joseph as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$1.745 billion representing 50% of estimated current market value. In August 2007, the Transit's tax rate of .33 mills was approved for four (4) years, expiring in December 2010. For the year ended September 30, 2008, St. Joseph County Transit levied .33 mills.

NOTE F: RISK MANAGEMENT

The Authority is exposed to various risks of loss including losses related to the Authority's liability, directors and officer's liability, workers compensation, contents/equipment, and property for which the Authority carries commercial insurance.

St. Joseph County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE G: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

There is potential legal action pending against the Authority. Due to the inconclusive nature of the action, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any.

NOTE H: COMPLIANCE REQUIREMENTS

Nonfinancial data - The methodology used for compiling mileage on OAR Schedules (Nonurban, JARC, and Specialized Services) is an adequate and reliable methodology for recording vehicle mileage.

Depreciation - The depreciation charges do not include any eligible depreciation. Therefore, all depreciation charges are ineligible for reimbursements and have been excluded from the computation of eligible costs to be reimbursed with State Formula Funds.

Capital money - No capital money was used to pay for operating expenses and none are included in total expenses to be reimbursed with State Formula Funds.

Ineligible expenses - Ineligible expenses are classified appropriately according to the definition in the local public transit revenue and expense manual.

Cost allocation plans - The St. Joseph County Transportation Authority has one cost allocation plan where the methodology has been approved by the BPT. The cost allocation plan is for JARC. The cost allocation plan was adhered to in the preparation of the financial statements.

NOTE I: RELATED PARTY TRANSACTIONS

The Authority engages in business transactions with Dresser, Dresser, Haas & Caywood P.C. One of the partners of Dresser, Dresser, Haas & Caywood, Joseph P. Hass, sits on the Authority's Board of Directors. These transactions are made in the normal course of business and amounted to \$707 for the year ended September 30, 2008.

St. Joseph County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE J: RESTATEMENT OF NET ASSETS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	September 30,		
	<u>2008</u>	<u>2007</u>	
Accounts payable	\$ -	\$(15,199)	To correct overstated
Revenues over (under) expenses	-	15,199	accounts payable
Net assets - beginning	15,199	-	
Unearned revenue	-	(13,067)	To correct overstated
Revenues over (under) expenses	-	13,067	unearned revenue
Net assets - beginning	13,067	-	
Accumulated depreciation	-	(44,450)	To correct overstated
Revenues over (under) expenses	-	44,450	accumulated depreciation
Net assets - beginning	44,450	-	
Capital assets	-	28,470	To correct understated
Revenues over (under) expenses	-	28,470	capital assets
Net assets - beginning	28,470	-	

OTHER SUPPLEMENTARY INFORMATION

St. Joseph County Transportation Authority

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2008

Demand response - farebox (regular)	\$ 11,902
Demand response - farebox (JARC)	32,538
Contract fares	266,718
Tax levy	582,706
Local operating assistance	14,000
Interest	5,814
Other	331
Contributed capital	<u>16,400</u>
TOTAL LOCAL REVENUES	<u>\$ 930,409</u>

St. Joseph County Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2008

Federal and State Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Michigan Department of Transportation								
Federal Transit Capital Grants	20.500							
Section 5309 (80/20)		MI-03-0189/2007-0292/Z10	\$ 10,672	\$ -	\$ -	\$ -	\$ -	\$ 10,672
Section 5309 (80/20)		MI-03-0192/2007-0292/Z11	5,754	-	-	-	-	5,754
			16,426	-0-	-0-	-0-	-0-	16,426
Capital Assistance Program for Elderly Persons and Persons with Disabilities								
Section 5310 (80/20)	20.513	MI-16-0030/2006-0509/Z1	68,680	58,961	47,169	11,792	-	9,719
Section 5310 (80/20)		MI-16-0024/2007-0292/Z9	30,768	-	-	-	-	30,768
			99,448	58,961	47,169	11,792	-0-	40,487
Operating Assistance - Section 5311								
Capital Grant - Section 5311 (80/20)	20.509	MI-18-X038/2002-0693/Z12/R1	157,800	3,216	2,573	643	145,483	9,101
Capital Grant - Section 5311 (80/20)		MI-85-X001/2007-0292/Z5	106,250	-	-	-	-	106,250
Operating Assistance - Section 5311 FY 07		2007-0292/Z3	146,001	-	-	-	119,718	26,283
Operating Assistance - Section 5311 FY 08		MI-18-X042/2007-0292/Z7	144,283	144,283	144,283	-	-	-0-
Rural Transportation Assistance Program		N/A	3,500	3,429	3,429	-	-	71
			557,834	150,928	150,285	643	265,201	141,705
Job Access (50/50)	20.516	MI-37-X026/2007-0292/Z8	19,632	19,632	9,816	9,816	-0-	-0-
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51								
Nonurban	N/A							
Operating Assistance - FY07		N/A	331,686	-	-	-	313,717	17,969
Operating Assistance - FY08		N/A	325,997	325,997	-	325,997	-	-0-
			657,683	325,997	-0-	325,997	313,717	17,969
Specialized Services	N/A	2007-0292/Z6	18,690	18,690	-	18,690	-	-0-
TOTALS			\$ 1,369,713	\$ 574,208	\$ 207,270	\$ 366,938	^(a) \$ 578,918	\$ 216,587

(a) The total State revenue on the Statement of Revenues, Expenses, and Changes in Fund Net Assets is \$381,095. The total State Expenditures on the Schedule of Expenditures of Federal and State Awards is \$366,938. The difference between the State revenue amounts is \$14,157, due to State operating assistance from prior years' reconciliations being received in the current year and refunds of fuel taxes.

St. Joseph County Transportation Authority

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2008

	Nonurban	JARC (MI-37-X026/ 2007-0292/Z8)	Specialized Services (2007-0292/Z6)	Total
Labor	\$ 776,406	\$ 14,273	\$ -	\$ 790,679
Payroll taxes and fringe benefits	76,759	1,783	-	78,542
Professional services	50,949	649	-	51,598
Materials and supplies	280,606	3,152	-	283,758
Utilities	24,428	373	-	24,801
Insurance	35,894	591	-	36,485
Purchased service	-	-	18,690	18,690
Miscellaneous expenses	13,101	116	-	13,217
Interest expenses	4,682	-	-	4,682
Operating leases & rentals	-	30	-	30
Depreciation	136,911	408	-	137,319
TOTAL EXPENSES	\$ 1,399,736	\$ 21,375	\$ 18,690	\$ 1,439,801

St. Joseph County Transportation Authority

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 11,902
40200	Contract fares	266,718
408	Local revenue	
40800	Tax levy	582,706
409	Local revenue	
40910	Local operating assistance	14,000
411	State formula and contracts	
41101	State operating assistance	325,997
41199	Other reimbursements	14,157
413	Federal contracts	
41301	Section 5311	144,283
41398	RTAP	3,429
414	Other revenue	
41400	Interest income	5,814
41499	Miscellaneous income	331
430	Other revenue	
43000	Contributed capital	16,400
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 1,385,737</u>

St. Joseph County Transportation Authority

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 556,820	\$ -	\$ -	\$ 556,820
50102	Other salaries and wages	-	37,722	75,293	113,015
50103	Dispatchers' salaries and wages	106,571	-	-	106,571
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	51,208	7,244	15,545	73,997
50201	Pensions	-	-	2,762	2,762
503	Services				
50302	Advertising fees	-	-	7,964	7,964
50305	Audit cost	-	-	21,220	21,220
50399	Other services	9,455	2,181	10,129	21,765
504	Materials and supplies				
50401	Fuel and lubricants	223,478	-	-	223,478
50402	Tires and tubes	6,146	-	-	6,146
50404	Major purchases	5,874	877	844	7,595
50499	Other materials and supplies	25,773	7,353	10,261	43,387
505	Utilities				
50500	Utilities	-	-	24,428	24,428
506	Insurance				
50603	Liability insurance	28,589	-	7,305	35,894
509	Miscellaneous expenses				
50902	Travel, meetings & training	1,454	311	6,109	7,874
50903	Association dues & subscriptions	50	-	1,831	1,881
50999	Other	609	506	2,231	3,346
511	Interest expense				
51102	Interest on short-term debt	-	-	4,682	4,682
513	Depreciation				
51300	Depreciation	136,911	-	-	136,911
550	Less ineligible expenses				
55006	Ineligible interest expense	-	-	4,682	4,682
55007	Ineligible depreciation	136,911	-	-	136,911
55008	Ineligible expenses	-	-	3,760	3,760
574	Less ineligible expenses				
57402	Ineligible RTAP	-	-	3,429	3,429
Total expenses					1,399,736
Total ineligible expenses					148,782
Total eligible expenses					<u>\$ 1,250,954</u>

St. Joseph County Transportation Authority

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle miles (1)	616,848	25,074	5,663	647,585

(1) The methodology used for compiling vehicle miles has been reviewed and found to be an adequate and reliable method for recording vehicle miles.

St. Joseph County Transportation Authority

OAR SCHEDULE 4R
JOB ACCESS REVENUE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 32,538
411	State contracts	
41199	Job Access	9,816
413	Federal contracts	
41399	Job Access	9,816
TOTAL JOB ACCESS REVENUE		<u>\$ 52,170</u>

St. Joseph County Transportation Authority

OAR SCHEDULE 4E
JOB ACCESS EXPENSE REPORT

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 10,351	\$ -	\$ -	\$ 10,351
50102	Other salaries and wages	-	820	1,730	2,550
50103	Dispatchers' salaries and wages	1,372	-	-	1,372
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	1,431	96	256	1,783
503	Services				
50302	Advertising fees	-	-	120	120
50305	Audit cost	-	-	315	315
50399	Other services	122	54	38	214
504	Materials and supplies				
50401	Fuel and lubricants	2,450	-	-	2,450
50402	Tires and tubes	77	-	-	77
50404	Major purchases	23	-	17	40
50499	Other materials and supplies	317	127	141	585
505	Utilities				
50500	Utilities	-	-	373	373
506	Insurance				
50603	Liability insurance	470	-	121	591
509	Miscellaneous expenses				
50902	Travel, meetings & training	-	-	48	48
50903	Association dues & subscriptions	-	-	68	68
512					
51200	Operating leases & rentals				
	Operating leases & rentals	-	-	30	30
513	Depreciation				
51300	Depreciation	408	-	-	408
550	Less ineligible expenses				
55007	Ineligible deprecation expense	408	-	-	408
55010	Less ineligible expenses				
	Other ineligible expense associated w/Aux & Nontrans	-	-	35	35
574	Less ineligible expenses				
57402	Ineligible RTAP	-	-	90	90
Total expenses					21,375
Total ineligible expenses					533
Total eligible expenses					<u>\$ 20,842</u>

St. Joseph County Transportation Authority

OAR SCHEDULE 4N
JOB ACCESS NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle miles (1)	26,709	-	-	26,709

(1) The methodology used for compiling vehicle miles was reviewed and found to be an adequate and reliable method for recording vehicle miles.

St. Joseph County Transportation Authority

OAR SCHEDULE 4R
SPECIALIZED SERVICES REVENUE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Amount</u>
411	State contracts	
41199	Other State contracts and reimbursements	\$ 18,690
TOTAL SPECIALIZED SERVICES REVENUE		<u>\$ 18,690</u>

St. Joseph County Transportation Authority

OAR SCHEDULE 4E
SPECIALIZED SERVICES EXPENSE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>Administrative</u>	<u>Total</u>
508	Purchased transportation service				
50800	Purchased transportation service	\$ 18,690	\$ -	\$ -	\$ 18,690
				Total expenses	18,690
				Total ineligible expenses	-
				Total eligible expenses	<u>\$ 18,690</u>

St. Joseph County Transportation Authority

OAR SCHEDULE 4N
SPECIALIZED SERVICES NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Agency</u>	<u>Volunteer</u>	<u>Total</u>
611	Vehicle miles (1)	32,569	-	32,569

(1) The methodology used for compiling vehicle miles was reviewed and found to be an adequate and reliable method for recording vehicle miles.

St. Joseph County Transportation Authority

OPERATING ASSISTANCE CALCULATION

Year Ended September 30, 2008

	<u>Nonurban</u>
Total expenses	\$ 1,399,736
Less ineligible expenses	
RTAP	3,429
Contributed services	3,760
Depreciation	136,911
Interest expense	<u>4,682</u>
Total ineligible expenses per R&E manual	<u>148,782</u>
TOTAL STATE ELIGIBLE EXPENSES	<u><u>\$ 1,250,954</u></u>
Eligible expenses for State reimbursement	\$ 1,250,954
x Reimbursement percentage	<u>0.3615</u>
State operating assistance (not to exceed \$325,997)	<u><u>\$ 325,997</u></u>
Less additional Federal ineligible expenses	
Audit costs	<u>\$ 21,220</u>
Eligible expenses for Federal reimbursement	1,229,734
x Reimbursement percentage	<u>0.1600</u>
Federal section 5311 operating assistance (not to exceed \$144,283)	<u><u>\$ 144,283</u></u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
St. Joseph County Transportation Authority
Three Rivers, Michigan

We have audited the financial statements of the St. Joseph County Transportation Authority as of and for the year ended September 30, 2008, and have issued our report thereon dated February 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the St. Joseph County Transportation Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the St. Joseph County Transportation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the St. Joseph County Transportation Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

2008-1 PREPARATION OF FINANCIAL STATEMENTS

Criteria: Governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Authority rests with the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

2008-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the St. Joseph County Transportation Authority. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management may not possess the qualifications necessary to prepare the Authority's annual financial statements and notes to the financial statements in accordance with GAAP. The Authority relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Recommendation: We recommend the Authority consider obtaining proper training for the appropriate members of the Authority's management to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the Authority's management to be able to accept responsibility for the amounts and disclosures included in the Authority's financial statements.

Corrective Action Response: It is the intent of the St. Joseph County Transit Authority to obtain the necessary training for the management staff to successfully manage the day to day operations of the Transit Authority. It will be necessary for the Director and Financial Manager to obtain training to fully understand the requirements of preparing GAAP financial statements. This training will be obtained from the MDOT handbook and with assistance through the Michigan Public Transit Association.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies described below to be material weaknesses in internal control over financial reporting.

2008-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: Material journal entries were proposed by the auditors to properly account for items such as prior year journal entries and capital asset activity. These misstatements were not detected by the Authority's internal control over financial reporting.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Authority's internal controls.

Recommendation: We recommend that the Authority take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The Financial Manager will be responsible for the accurate entry of material journal entries prior the annual audit.

2008-3 PRIOR PERIOD ADJUSTMENTS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: As indicated in the basic financial statements, beginning net assets were restated to correctly reflect the amount of capital assets, net of accumulated depreciation from prior year, accounts payable, and unearned revenue.

Effect: Through the identification of the need to restate net assets, which would not otherwise have been identified by management, the auditors are effectively part of the Authority's internal controls.

Recommendation: We recommend that the Authority take steps to ensure that restatements of net assets are not necessary at the time future audit analysis is performed.

Corrective Action Response: The Financial Manager will also be responsible to ensure that restatements of net assets are entered in a timely manner and prior to the annual audit.

2008-4 SEGREGATION OF DUTIES

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

Condition: During our consideration and assessment of fraud risk, we noted that the Authority may not have sufficient segregation of duties in its accounting structure. It was noted that one person is responsible for all of the accounting functions, processing disbursements for accounts payable and payroll, receipting of cash and deposits, and reconciliation of the bank statements.

Effect: While this is a common occurrence in smaller organizations due to the limited number of employees, the Foundation should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

Recommendation: We recommend that the Authority review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Authority provide a greater review and supervision of employee functions and procedures. We also recommend that in the future when the Authority is adopting new or modifying existing financial policies they consider the issue of fraud, and assure that the policy discusses ways that will prevent, deter and detect fraud within the area the policy is addressing.

Corrective Action Response: The Authority will review the current internal controls and look for opportunities to segregate duties and/or improve current controls.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Joseph County Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and other matters.

2008-5 PUBLIC TRANSPORTATION MANAGEMENT SYSTEM (PTMS) REPORTS

Criteria: The filing of the Authority's PTMS reports with the Bureau of Passenger Transportation should accurately reflect the financial statements of the Authority.

Condition: During our review of the Authority's PTMS reports, it was noted that ineligible expenses reported contradicted the Authority's revenue and/or expenses.

2008-5 PUBLIC TRANSPORTATION MANAGEMENT SYSTEM (PTMS) REPORTS - CONTINUED

Effect: The Authority's internal controls over financial reporting were not able to detect contradictions in the Authority's PTMS reports. These noted contradictions within the PTMS reports were immaterial to the financial statements as a whole and therefore were not adjusted during the audit process.

Recommendation: We recommend that the Authority accurately complete the PTMS reports to be filed with the Bureau of Passenger Transportation.

Corrective Action Response: The Authority will obtain the necessary training to comprehend the operation and function of PTMS software used by the Michigan Department of Transportation. This training will be obtained from the MDOT handbook and with assistance through the Michigan Public Transit Association.

2008-6 DEBIT/CREDIT CARD POLICY

Criteria: A debit/credit card policy should inform management and other employees on what is considered to be proper uses for an Authority issued card.

Condition: Based on our discussions with management, we noted that the Authority has not formally adopted a debit/credit card policy. Although the Authority does not hold credit cards, they have one (1) debit card.

Effect: Currently the Authority is in violation of Public Act 266 of 1955 (MCL 129.241).

Recommendation: We recommend that the Authority adopt a debit/credit card policy that complies with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee debit/credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the debit/credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the debit/credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for debit/credit card protection and custody and must report lost or stolen cards;
- e. Debit/credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of debit/credit cards;
- g. Approval of debit/credit card invoices prior to payment;
- h. The balance, including interest, must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of debit/credit card; and
- j. Other matters the local unit considers advisable.

Corrective Action Response: The Authority shall develop and adopt a credit and debit card policy that complies with the State of Michigan requirements.

2008-7 ELECTRONIC TRANSACTIONS POLICY

Criteria: An electronic transaction policy would cover payments that are made via wire transfer or automatic debit that would appear on the Authority's bank statement. A policy should be adopted to define when an electronic transaction is appropriate and at which level of management it should be approved.

Condition: During discussions with management, we noted that the Authority has not adopted a policy governing the use of electronic transactions and Automated Clearing House (ACH) arrangements. Public Act 738 of 2002 states, "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transactions Officer (ETO) of the local unit has presented a written ACH policy to the governing body.

Effect: Currently the Authority is in violation of Public Act 738 of 2002, which requires that local units of government that utilize electronic transactions adopt an electronic transactions policy.

2008-7 ELECTRONIC TRANSACTIONS POLICY - CONTINUED

Recommendation: It is recommended that the Authority adopt a policy that shall include all of the following:

- a. That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- b. That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- c. A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- d. The approval of ACH invoices before payment.

Corrective Action Response: The Authority shall develop and adopt an electronic transaction policy.

2008-8 FRAUD RISK MANAGEMENT PROGRAM

Criteria: A fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Condition: During the course of our audit, it was noted that in the Authority has not adopted a formal anti-fraud program. Anti-fraud programs should be part of the Authority's internal controls to allow employees avenues to communicate fraud to responsible officials of the Authority.

Effect: The Authority's internal controls over financial reporting are not as strong as they could be as there is an absence of an internal process to report deficiencies in internal control to management on a timely basis.

Recommendation: We recommend that the Authority adopt a formal fraud risk management program.

Corrective Action Response: The Authority shall develop and adopt a fraud risk management program.

2008-9 CONFLICT OF INTEREST POLICY

Criteria: A conflict of interest policy will clarify the Authority's position on ethical behavior and communicate that position to employees and board members.

Condition: During the course of our audit, it was noted that the Authority has not adopted a formal conflict of interest policy. A policy on conflict of interest should be a part of the Authority's internal controls to communicate to employees the Authority's position on ethical behavior.

Effect: The Authority's internal control design lacks a formal position on ethical behavior.

Recommendation: We recommend that the Authority adopt a formal conflict of interest policy.

Corrective Action Response: The Authority shall develop and adopt a conflict of interest policy.

2008-10 INVESTMENT POLICY

Criteria: GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Authority's ability to provide services and meet its obligations as they become due.

Condition: During the course of our audit and through discussions with administration, it was noted that the Authority has not adopted or amended an investment policy to address the various types of investment risk as described in GASB Statement No. 40.

2008-10 INVESTMENT POLICY - CONTINUED

Effect: There is no policy established to inform users of deposit and investment risks that may affect the Authority's ability to provide services.

Recommendation: We recommend that the board adopt an investment policy to address custodial credit risk, concentration of credit risk, and interest rate risk.

Corrective Action Response: The Authority shall develop and adopt an investment policy.

2008-11 DISASTER RECOVERY PLAN

Criteria: A disaster recovery plan should inform employees of where to go in the event that operations will not be able to be done from the main office location.

Condition: During discussions with management, we noted that the Authority has not adopted a policy regarding disaster recovery.

Effect: In the event of a disaster, the Authority may not be able to function.

Recommendation: We recommend that the Authority adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Authority and detail how they would continue to operate in the absence of those critical areas of operation. The plan should also identify how and where the Authority's information is going to be backed up, preferably on a daily basis.

Corrective Action Response: The Authority shall develop and adopt a disaster recovery plan.

The Authority's responses to the findings identified in our audit are described above. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Directors of the St. Joseph County Transportation Authority, others within the entity, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

February 4, 2009